

SEPTEMBER 2023 QUARTERLY ACTIVITIES REPORT: CONTINUED ORGANIC GROWTH, SEVERAL PROJECTS NEAR COMPLETION, STRONG OUTLOOK FOR DECEMBER QUARTER

Key Highlights

- **Continued organic growth – highest quarterly cash receipts in a September quarter** (approx. \$6.1m)
- **Growth momentum continues** with 18 successive quarters of cash receipts growth vs prior corresponding period
- **Operating near EBITDA break-even – quarterly adj. EBITDA loss further reduced to approx. \$-110k (preliminary/unaudited)**
- **Manufacturing of equipment under four major contracts/projects on track – including the \$1.6m project with South 32 with delivery scheduled for early December**
- **Strong outlook for December Quarter 2023 with substantial amount of project payments scheduled – expecting \$7m-8m in quarterly cash receipts (highest quarterly cash receipts ever recorded)**
- **New contract awards including a \$660k project with an industrial customer in Australia provide for strong sales pipeline well into CY 2024**
- **Progressing towards NSF (drinking water) certification for new Graphene Oxide membrane with key testing procedure passed; preparing for commercial launch of domestic water filtration product**
- **Appointment of Mr. Andrew Tay as CFO effective 10 October 2023**

30 October 2023: Industrial water and wastewater treatment company De.mem Limited (ASX: DEM) (“De.mem” or “the Company”) is pleased to report strong September Quarter 2023 results.

Highest Ever Cash Receipts in a September Quarter

De.mem is delighted to report cash receipts of approx. \$6.1m in the September Quarter 2023, the Company’s highest ever cash receipts in a September quarter since inception. Total cash receipts in the first nine months of the calendar year are approx. \$17.7m.

Cash receipts in the September quarter are up by approx. 11% vs. \$5.5m in the prior corresponding period (pcp).

De.mem has now recorded 18 consecutive quarters of cash receipts growth vs. pcp – despite the extremely difficult situation due to the Covid-19 pandemic in CY 2020 and 2021, and the global macroeconomic challenges in CY 2022 and 2023.

While the cash receipts are almost entirely generated by De.mem’s recurring business segments (see further details below), the Company advises that the September Quarter 2023 cash receipts exclude any contribution from 4 major projects that had been awarded to the company previously and which are currently in the final manufacturing and/or installation phase. De.mem considers this a normal fluctuation of payments within the project/equipment sales business.

Total of ~\$2m in Cash Receipts From 4 Major Projects Scheduled for December 2023 and March 2024 Quarters

De.mem is currently in the advanced stages of the manufacturing and delivery on 4 major contracts/projects. These include the following:

- The \$1.6m project for the supply of a membrane-based water treatment plant to South 32 (see the ASX announcement dated 17 October 2022, with the original contract value increased from \$1.4m to \$1.6m by contract variations; and further details in the following section below),
- the \$420,000 contract for the supply of a waste water treatment system to an industrial customer in Queensland (see the March 2023 Quarterly Activities Report dated 26 April 2023), and
- two projects that were recently awarded by industrial customers from Australia, worth \$200,000 and \$250,000 in revenues respectively (see the June 2023 Quarterly Activities Report dated 27 July 2023, section "Strong Sales Momentum").

The total value of the four projects is approx. \$2.5m with only approx. \$0.5m received so far, prior to the reporting quarter. A total of approx. \$2m in cash receipts from these projects is scheduled for the December Quarter 2023 and March Quarter 2024.

South 32 Project in Final Stages of Manufacturing

In late 2022, De.mem announced a new contract for the supply of a containerized water treatment plant to a subsidiary of South 32, with a value of approximately \$1.4 million in revenues. The value of the contract has increased to \$1.6m by contract variations in 2023.

Under the contract, De.mem designs, builds and commissions a water treatment system to be deployed at a mining site. The new plant incorporates modern membrane technology and other water treatment processes, including the dosing of chemicals such as the Company's proprietary antiscalant formulations.

As per the date of this report, the project is in the final stages of manufacturing with delivery planned for early December 2023. As of 30 September 2023, the vast majority of the cost under the contract, in particular for the purchase of components, had already been incurred; while most of the customer payments are scheduled for the December Quarter 2023 and March Quarter 2024.



Image 1) De.mem Containerized Membrane Based Water Treatment Plant

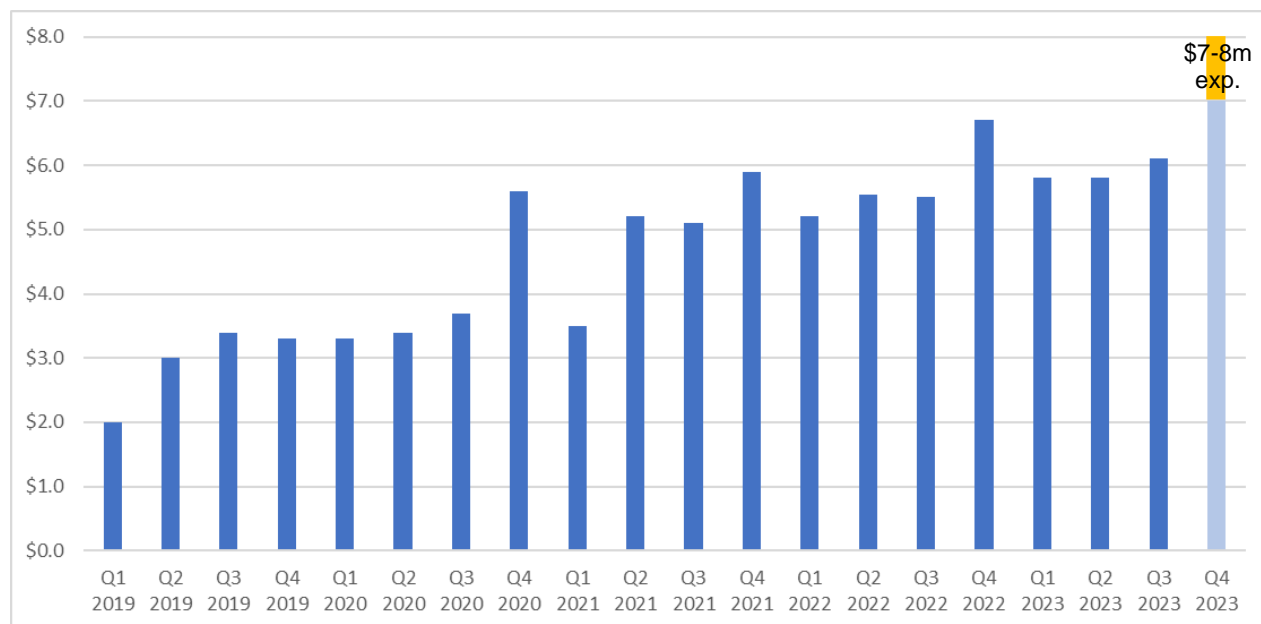


Image 2) De.mem Containerized Membrane Based Water Treatment Plant

Record Cash Receipts Expected in the Ongoing December Quarter

Due to the significant contribution from the above projects (see details in the following section), including the project with South 32 as described in the section above, De.mem expects record cash receipts for the ongoing December Quarter 2023. Depending on the timing of payments, total cash quarterly cash receipts in the December Quarter 2023 are estimated between \$7m and \$8m, or more.

CHART 1: QUARTERLY CASH RECEIPTS IN A\$ MILLION - STRONG GROWTH MOMENTUM WITH 18 QUARTERS OF CASH RECEIPTS GROWTH VS. PCP



Strong Sales Momentum Continues - New Contract Awards Provide for Strong Sales Pipeline into CY 2024

During the reporting quarter, De.mem received the following key contract awards and purchase orders across its different business segments. These orders are below the materiality threshold for individual contracts and hence, have not been reported to the ASX separately.

Projects:

- An award worth \$660,000 to supply water treatment equipment and membranes to an industrial customer in Queensland.
- An award worth approx. \$280,000 to supply waste water treatment equipment to an industrial customer in Germany.

Services:

- After the reporting period, a new contract for the provision of water treatment operations & maintenance services to an international mining corporation has been initiated, worth approx. \$240,000 over an initial 6-month period.

The new contracts support the growth trajectory of the business and a strong outlook for CY 2024.

September CY 2023 Cash Receipts Largely Recurring – Resulting in Strong Margin Profile

In line with the strategy communicated to the Company’s shareholders, in CY 2023, growth initiatives remain focused on the Company’s recurring revenue segments (see section below, “De.mem Group Business Segments – Focus on Growing Recurring Revenues”, for further details).

During the September Quarter 2023, the share of recurring cash receipts vs. the Company’s total cash receipts was at above 95% of total cash receipts (in CY 2018: only 38% of revenues recurring).

De.mem’s recurring revenue segments are very predictable and generate above industry average gross margins. The recurring revenue growth continues to enhance the margin profile across the combined business (gross margin up from 18% in CY 2017 to 35% in CY 2022 and 37% in H1 CY 2023).

Adjusted Net Operating Cash Outflows of ~\$-180,000 in the June Quarter 2023

De.mem reports net operating cash outflows for the June Quarter 2023 of approx. \$-780,000 as per the Appendix 4C.

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The quarterly net operating cash outflows break down as follows:

- No/zero contribution in cash receipts/payments from the 4 major projects mentioned above, as a total of approx. \$2m in customer payments from these projects is outstanding and scheduled for the December Quarter 2023 and March Quarter 2024.
- A total of approx. \$600,000 in advance payments outgoing to suppliers for the purchase of components for the manufacturing of the water and waste water treatment plants under these 4 major contracts/projects.

Hence, the net investment in components and working capital for the above-mentioned projects in the September Quarter 2023, included in the Company's operating cash outflows, amounts to \$600,000.

Adjusted for the above, the adjusted net operating cash outflows during the September Quarter 2023 are approx. \$-180,000.

The scheduled customer payments from the above-mentioned projects, with a large part of the cost already incurred and paid for, will have a positive impact on the operating cash flows in the upcoming December Quarter 2023 and March Quarter 2024.

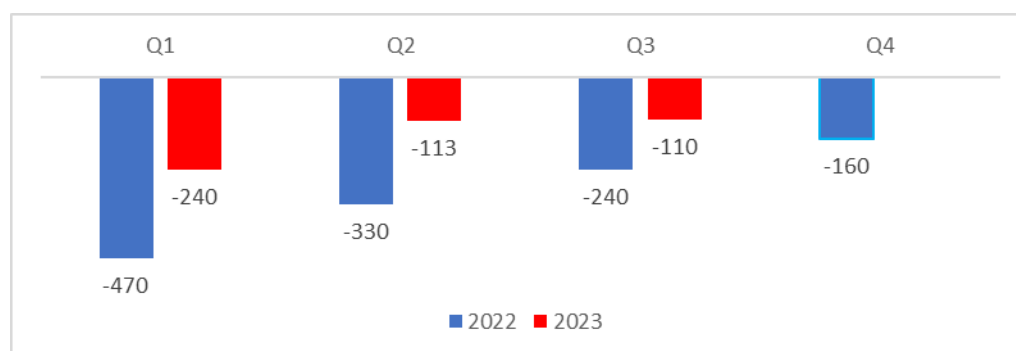
Adj. EBITDA During the September Quarter 2023 Near Break Even

De.mem reports an adjusted EBITDA loss (EBITDA adjusted for share based payments and business acquisition cost; unaudited/preliminary) of approx. \$-110k for the September Quarter 2023.

This continues the trend of a declining quarterly adjusted EBITDA loss since the beginning of CY 2022, and De.mem operating near EBITDA break even.

The difference between EBITDA and operating cash flows is mainly in the revenue recognition for projects. While the revenues and margins for projects are already recognized in the Company's profit and loss statement, with a positive impact on EBITDA, customer payments are only reported as part of the operating cash flows when received on the bank accounts.

CHART 1: DECREASING QUARTERLY ADJ. EBITDA LOSS SINCE 2022 – ON TRACK TO ACHIEVING EBITDA BREAK-EVEN



Cash Generating Operating Business Offsets Ongoing Investment in Long-Term Growth Through R&D, and the Corporate Overhead

The net operating cash outflows of approx. \$-780,000 reported for the September Quarter 2023 split up as follows:

- Cash outflows by the Australian and German operations: Approx. \$-320,000. Adjusted for a total of \$600,000 in advance payments made for the purchase of components for four major projects (see detailed comments above), an adjusted cash inflow results amounting to \$280,000;
- Cash outflows to support the operations of the Singapore subsidiary, which is predominantly in membrane R&D: Approx. \$-160,000; and
- Cash outflows to fund expenses related to the holding company, including cost related to listing, corporate administration and overhead: Approx. \$-300,000.

Please see the Appendix 4C attached to this release for further details regarding the breakdown of incoming and outgoing payments.

De.mem Group Business Segments – Focus on Growing Recurring Revenues

The core of De.mem’s strategy is to provide a comprehensive “one stop shop” offering to its extensive industrial customer base and, in particular, to the Company’s industrial key accounts, around a range of products and services required for potable and industrial water supply, the supply of industrial process water, the treatment of industrial wastewater and the recycling/re-use of water that has previously been used in industrial processes.

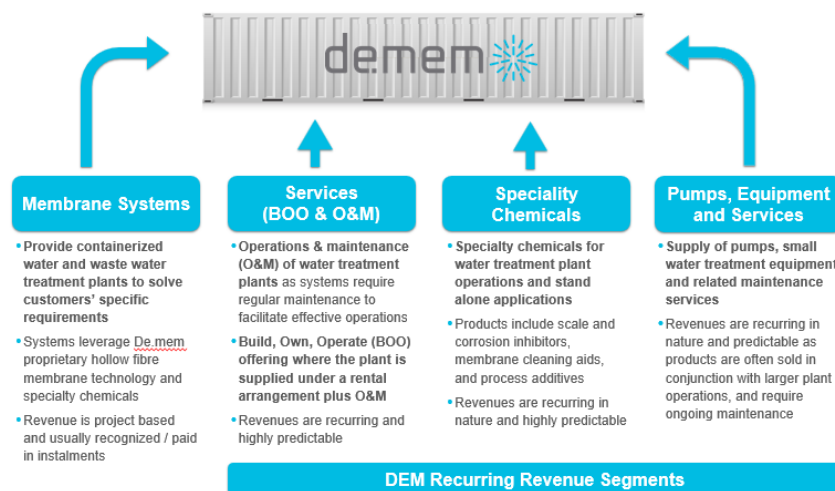
Over the past years, the Company’s focus has been on growing its “recurring revenue segments”. These segments are all required for the successful operation of a wastewater plant and are hence recurring in nature:

- Build, Own, Operate (“BOO”) and Operations & Maintenance (“O&M”) contracts.
- Regular maintenance work on water treatment equipment.
- Specialty chemicals sales.
- Sales and maintenance services of pumps.
- Sales of small equipment and consumables.
- Membrane replacement sales into existing facilities.

The Company’s wide product portfolio brings extensive cross-selling opportunities, as most industrial customers require several or all of the above products and service lines – from the supply of water treatment plants and systems to O&M services as well as chemicals and consumables for the ongoing operations.

The strategy results in a high-quality revenue/business model and a comprehensive offering of products & services which is unique within the water treatment industry. It brings long-term, stable customer relationships and key accounts to De.mem, which provide a strong opportunity for the cross-selling of other De.mem products and services. This provides a strong foundation for the continued growth of the business in the future.

As of October 2023, De.mem’s group structure is as follows:



World Leading Membrane Technology Provides Strong Competitive Advantage; Progressing with NSF Certification for New Graphene Oxide Membrane and Preparing for Upcoming Commercial Launch

De.mem has a strong competitive advantage of proprietary and/or patented technologies, underpinning the Company’s unique portfolio of hollow fibre Microfiltration, Ultrafiltration and Nanofiltration membranes. The Company commercializes its membranes as the key component of its integrated water and wastewater treatment systems or its Build, Own, Operate and service contracts, and in combination with the Company’s wide range of specialty chemicals, pumps and consumables that are typically required by clients during operations of membrane based water treatment plants.

On 7 September 2021, De.mem presented its “next-gen” membrane technology, based on Graphene Oxide (“GO”) enhanced polymer membranes, with substantially improved membrane characteristics such as 20-40% higher water flux (throughput), leading to significantly reduced operating cost for the water treatment process.

During H1 2022, De.mem initiated a process to obtain approval for use of the new GO membrane technology for potable water treatment applications by the NSF (National Sanitation Foundation, the American regulator for drinking water related products). De.mem has been liaising with the NSF since then, including a meeting with NSF representatives in the USA during the December Quarter 2022. During the September Quarter 2023, a key milestone has been met, with De.mem's membrane having passed a critical high pressure testing procedure performed by the NSF. The conclusion of the process is expected within the next 3-4 months.

On 19 July 2022, De.mem announced a new partnership with Purafy, Canada, related to the commercialization of the GO membrane technology (see the ASX release dated 19 July 2022, "De.mem Signs Technology Commercialization Partnership Agreement" for further details). Purafy is part of Grafoid Inc., Canada, a graphene research, development and investment company, and promotes a range of products for domestic water treatment filtration as well as portable water treatment systems. Through the partnership, De.mem intends to launch the GO membrane technology initially into domestic point-of-use and point-of-entry water purification applications, which is estimated to be a US\$82.6bn global market by 2027 (source: *Market Research Future, study on the Water Purifier Market, May 2021*). The commercial launch will kick off as soon as the innovative technology has achieved NSF certification.

De.mem Appoints CFO

On 10 October 2023 De.mem announced the appointment of Mr. Andrew Tay as its new Chief Financial Officer.

Mr. Tay is a highly accomplished Australian finance executive. In his most recent role, he worked as the CFO for Powerark Solar Pty Ltd, Australia. Furthermore, he was the CFO of One Stop Warehouse Pty Ltd, Australia's largest solar distributor and a subsidiary of Shenzhen-listed GCL System Int Tech Co Ltd. He had also been appointed as the Finance Manager of Western Resource Recovery, a Joint Venture company between Veolia and Transpacific group. Andrew covered all important finance aspects in his prior roles, including financial accounting and reporting, the development and implementation of cost savings initiatives as well as strategic transactions and capital raisings. He holds an Australian CPA qualification.

Andrew commenced with De.mem on 1 February 2023 in the capacity of Finance Director. His role consolidated other finance functions within De.mem, with no material additional financial burden to the business.

Andrew's appointment strengthens the Company's senior management team, following the growth of the business in recent years. His role will focus on the continued integration and expansion of the different group entities in Australia, Asia (Singapore) and Europe (Germany).

ESG Impact

With its core business model focusing on the treatment, re-use and recycling of industrial wastewater, De.mem is fulfilling an important environmental and social mission.

De.mem is committed to ESG and believes that it delivers against several of the United Nations' 17 Sustainable Development Goals – including, for example:

- Goal no. 6: Clean water and sanitation – Ensure availability and sustainable management of water and sanitation for all.
- Goal no. 9: Industry, innovation and infrastructure – Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
- Goal no. 11: Sustainable cities and communities – Make cities and human settlements inclusive, safe, resilient and sustainable.

In particular, De.mem's products, services and business model contribute to the above objectives as follows (see the Company's Investor Presentation, lodged to the ASX on 28 July 2022, slide 18 for further details):

- De.mem's membrane technology and treatment plants clean waste water, facilitate water discharge and water reuse/recycling. During the September Quarter 2023, De.mem treated a total of approx. 572 million liters of water under industrial BOO and O&M contracts, across 18 sites in Australia and Singapore (roughly equivalent to the amount of water contained in ~235 Olympic sized swimming pools).
- De.mem's water treatment systems often facilitate the deployment of a membrane-based separation process using De.mem's proprietary hollow fiber membranes. This process not only relies on lower power consumption, but also meaningfully reduces usage of bulk and other harmful chemicals as only small amounts of high value specialty chemicals are required.

- De.mem's domestic water filtration products are being used by customers to replace bottled drinking water. Hence, they can help to significantly reduce plastic waste. As a benchmark – more than 373 million plastic bottles are used in Australia annually with only 36% being recycled (source: University of Wollongong).

CEO Commentary

De.mem Chief Executive Officer Andreas Kroell said:

"We are pleased to report continued organic growth during the September Quarter 2023.

Adjusted for the upfront investment in components for a number of projects currently in the final stages of manufacturing, we have been operating near operating cash flow and EBITDA break even.

The projects will deliver substantial cash receipts in the ongoing December Quarter 2023 and the March Quarter 2024, supporting a strong outlook for the near-term future.

We look forward to concluding the ongoing Calendar Year 2023 with a strong December Quarter, delivering significant organic growth."

Payments to related parties included in Appendix 4C

The payments to related parties of De.mem disclosed in item 6.1 of the Appendix 4C for the quarter, accompanying this quarterly activities report, were payments of directors' fees and salaries.

This release was authorized by the Company's CEO, Andreas Kroell, on behalf of the Board.

-ENDS-

For further information, please contact:

Andreas Kroell

CEO, De.mem Limited

investor@demem.com.sg

+61 (0) 75428 3265

De.mem Limited (ASX:DEM) is an Australian headquartered, international decentralized water and wastewater treatment business that designs, builds, owns and operates turnkey water and wastewater treatment systems for some of the world's largest companies in the mining, electronics, chemical, oil & gas, and food & beverage industries. Its systems also provide municipalities, residential developments and hotels/resorts across the Asia Pacific with a reliable supply of clean drinking water. De.mem offers a "one-stop-shop" of services, chemicals and consumables to its clients, for the ongoing operations of their water and wastewater treatment plants.

De.mem's technology to treat water and wastewater is among the most advanced globally. The Company commercialises an array of innovative proprietary hollow-fibre membrane technologies. De.mem has been partnering with Nanyang Technological University (NTU) in Singapore, a world leader in membrane and water research.

To learn more, please visit: www.demembranes.com

Forward Looking Statements

Statements contained in this release, particularly those regarding possible or assumed future performance, revenue, costs, dividends, production levels or rates, prices or potential growth of De.mem Limited, are, or may be, forward looking statements. Such statements relate to future events and expectations and, as such, involve known and unknown risks and uncertainties. Actual results and developments may differ materially from those expressed or implied by these forward-looking statements depending on a variety of factors.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity		
De.mem Limited		
ABN	Quarter ended ("current quarter")	
12 614 756 642	30 Sep 2023	
Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,055	17,684
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(4,202)	(11,630)
(c) advertising and marketing	(35)	(74)
(d) leased assets	(24)	(203)
(e) staff costs	(1,970)	(5,435)
(f) administration and corporate costs	(610)	(1,541)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	17	50
1.5 Interest and other costs of finance paid	(10)	(45)
1.6 Income taxes paid	(9)	(35)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	7	72
1.9 Net cash from / (used in) operating activities	(781)	(1,157)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) businesses	-	(125)
(b) property, plant and equipment	(120)	(674)
(c) investments	-	-
(d) intellectual property	-	(36)
(e) other non-current assets	(2)	(2)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	2	22
	(d) investments	9	158
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(111)	(657)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (lease liabilities)	(138)	(346)
3.10	Net cash from / (used in) financing activities	(138)	(346)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
	Net Cash and equivalents at beginning of quarter/year to date.	3,986	5,104
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(781)	(1,157)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(111)	(657)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(138)	(346)
4.5	Effect of movement in exchange rates on cash held	(0)	12
4.6	Cash and cash equivalents at end of period	2,956	2,956

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,979	2,754
5.2	Call deposits	977	1,232
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,956	3,986

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	103
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify) Bank overdraft	-	-
7.4 Total financing facilities	-	
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(781)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,956
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	2,956
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.8
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
N/A	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
N/A	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 30 October 2023

Authorised by: Andreas Kroell
Chief Executive Officer

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.